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Industry slams SBP's 'penal' rate policy

Leaders criticise central bank for ignoring calls for a single-digit rate to revive economy

By Aamir Shafaat Khan

KARACHI: While seeking a single-digit interest rate, businessmen have rejected the State Bank's decision to maintain interest rates at 10.50 per cent, terming it disappointing and counterproductive at a time when industrial revival and a boost in exports are the need of the hour.

The SBP's cautious approach is baffling, given the ground realities – with core inflation stabilised at around 5 per cent over the past many months and major economic indicators pointing to the need for growth. However, the status quo in interest rates at 10.5pc will continue to hamper the industry's access to finance, local businessmen said.

In contrast, Overseas Investors Chambers of Commerce and Industry Secretary General M. Abdul Aleem told *Dawn* that the State Bank's decision to retain the interest rate without a prudent reduction may have surprised many who were looking for a minor cut.

However, these are decisions made on economic fundamentals, not on the wishes of some key stakeholders, he said, adding that the economy is doing reasonably well. Still, some challenges and opportunities may have led to no change in the decision. "We support the State Bank's decision," Aleem concluded.

Federation of Pakistan Chambers of Commerce and Industry (FPCCI) President Atif Ikram Sheikh stated that the business community had categorically demanded a substantive reduction of 350 basis points to bring the policy rate down to 7pc to kickstart the economy immediately, as the industry is currently battling an existential crisis due to exorbitant energy tariffs and high borrowing costs.

Holding the interest rate would not help move the needle on the cost of doing business, he said, reiterating that the high cost of capital is the primary driver of industrial closures and the inability of Pakistani exporters to compete globally."

If the monetary policy is not aggressively corrected in the following review to reach single digits, the target for export growth and industrial expansion for the fiscal year will remain elusive," Atif warned.

FPCCI Senior Vice President Saquib Fayyaz Magoon said the real interest rate in Pakistan remains unsustainably high compared to regional competitors. Keeping the policy rate at double-digit levels is unjustified given that inflation has receded.

This State Bank's decision would continue to penalise the private sector, restricting access to finance for SMEs and hampering export competitiveness. The SBP has missed a crucial opportunity to align monetary policy with the government's vision for industrial growth and export facilitation, he added.

President of the Korangi Association of Trade and Industry (KATI), Muhammad Ikram Rajput, said in view of the inflation rate and declining exports, there was sufficient room for at least a one-percentage-point reduction in the policy rate. Still, the central bank opted for an overly cautious approach.

The decision, he said, appeared to align more with expectations of the International Monetary Fund (IMF) than domestic economic realities, he said, questioning the State Bank's projected economic growth forecast of 3.75-4.75pc, terming it inconsistent with ground realities.

Mr Rajput stressed that sustainable economic growth is not possible without promoting industrialisation. A persistent increase in imports coupled with a decline in exports has put the survival of industries at risk.

President of the SITE Association of Industry (SAI), Ahmed Azeem Alvi, said the State Bank Governor himself has acknowledged that exports have declined while imports have risen. This clearly shows that keeping interest rates high has stalled economic progress.

He argued that this was the right time to take a chance and reduce the policy rate by at least one to 150bps.

Timely decisions could benefit businesses, boost exports, and support overall economic growth. Expressing regret, Mr Alvi noted that Pakistan had failed to learn from regional countries and had not capitalised on opportunities presented by global exhibitions.

Pakistan Chemical and Dyes Merchants Association Chairman Salim Valimuhammad said commercial importers warned that the move would further strain businesses and delay economic recovery.

"The policy rate should ideally be brought down to 8-9pc," he said.

Rs15bn tax rebate splits rice exporters

Critics warn move could push up domestic prices, benefit stockists

By Mubarak Zeb Khan

ISLAMABAD: At a time when rice exports are steadily declining, the Ministry of Commerce has allocated around Rs15 billion for a rebate scheme on local taxes and levies for rice exporters, raising concerns about a potential rise in domestic prices.

Exporters remain divided over the government's decision, which has been presented as a support measure for the sector. Several industry players, however, argue that the move fails to address the structural problems confronting rice exports and instead risks shifting the burden onto domestic consumers.

Rice Exporters Association of Pakistan (REAP) Chairman Faisal Jahangir told *Dawn* that the Drawback on Local Taxes and Levies (DLTL) scheme would help lower export prices and improve Pakistan's ability to compete with global suppliers. He said Indian rice was currently being offered at significantly lower prices, making it difficult for Pakistani exporters to maintain their foothold in international markets.

Mr Jahangir said the rebate would help exporters maintain market share amid intense competition, adding that the support was intended to ease cost pressures faced by the industry. He rejected concerns that the scheme would push up domestic rice prices, maintaining that the rebate was designed to support exports rather than influence the local market.

Nine per cent rebate

According to a notification issued by the commerce ministry, exporters of basmati and brown rice are eligible for a rebate of 9 per cent of the free-on-board (FOB) value, provided the export price is equal to or above $750 per metric tonne. Other coarse rice qualifies for a lower rebate of 3pc of FOB value, but only where the export price remains below $750 per tonne.

A Karachi-based rice exporter told *Dawn* that Pakistan's bureaucracy has a long history of repeating policy mistakes dating back to the 1960s, relying on short-term measures such as rebates and subsidies to keep export sectors afloat.

He said these stopgap incentives have failed to deliver sustained growth, leaving exports largely stagnant despite repeated fiscal support. By contrast, he said regional competitors such as China, India, Bangladesh and Vietnam have focused on structural reforms to improve productivity, logistics and cost efficiency, enabling their exporters to compete more effectively in global markets.

Exporters say rice exports have declined since the removal of the minimum export price due to higher cultivation, milling, financing and tax costs.

According to exporters, sustainable price competitiveness can only come from higher output and productivity, not from rent-based incentives that encourage speculative behaviour. In their view, reducing rice prices through increased production would generate real wealth across the value chain.

They point to India, noting that Indian rice prices, particularly basmati, have declined due to higher production, improved per-acre yields, and the development of new varieties that can be cultivated across different regions. Some exporters warn that the incentive could drive up domestic rice prices, benefiting stockists rather than exporters while squeezing consumers

They also point out that linking rebates to FOB values instead of export volumes sends a price signal back into the domestic market, pushing up paddy procurement rates, particularly for basmati, where the rebate rises to 9pc above the $750 per tonne threshold.

Sugarcane boom threatens cotton production

By Amjad Mahmood

LAHORE: A record increase in sugarcane prices and incentives offered by sugar mill owners to growers has heightened fears of a further decline in cotton cultivation next year, even as environmental pollution caused by sugarcane farming continues to damage cotton quality.

Despite an unprecedented fall in overall cotton production, lint consumption — rather than production — has now emerged as a major challenge for the country, while India has surprisingly raised its cotton production target for the 2025-26 crop year.

Cotton Ginners Forum Chairman Ihsan-ul-Haq said that the persistent failure to enforce crop zoning laws across Pakistan has led to a steady expansion of sugarcane cultivation in traditional cotton zones over the past few years, along with the establishment of new sugar mills.

This trend, he said, has not only caused a record decline in cotton acreage and national output but has also adversely affected cotton quality due to environmental pollution linked with sugarcane farming.

As a result, export-oriented textile mills have become increasingly dependent on imported cotton. He noted that despite national cotton production falling sharply from 14.8 million bales to around 5.5m bales, ginners are still struggling to sell their entire produce.

Mr Haq said sugar mill owners provide billions of rupees annually to sugarcane growers in the form of loans for fertilisers, pesticides and agricultural machinery. This year, sugarcane prices have increased by at least 25 per cent, reaching Rs500 per 40kg, with further increases expected. This has raised concerns that sugarcane cultivation will expand further in the 2026-27 cotton year, forcing textile mills to import even more cotton and increasing edible oil imports, costing the country billions of dollars in foreign exchange.

He stressed that strengthening the national economy requires strict enforcement of crop zoning laws to improve both the quantity and quality of lint. He also called for aligning electricity and gas tariffs, markup rates and taxes for the entire cotton industry with those of neighbouring countries, and for immediately reducing interference by various federal and provincial departments in industrial affairs.

Mr Haq pointed out that Pakistan is the only major cotton-producing country in the world where national output is declining every year, causing the country to slip from fourth to fifth or sixth position among global cotton producers. He said India had earlier set its cotton production target for the 2025-26 season at 30.95m bales, which has now been increased to 31.70m bales. In contrast, Pakistan's federal government fixed a target of 10.18m (170 kg) for the current year, while actual production is expected to remain around 5.6m bales (160 kg).

He urged the government to restore the one-year-old income tax regime for the export-oriented textile industry to help boost Pakistan's exports significantly.

Circular debt rises again

By Khaleeq Kiani

ISLAMABAD: Despite capital injections and over Rs1.225 trillion commercial borrowing last fiscal year, the power sector circular debt increased by Rs75 billion in the first half (July-December) of the current fiscal year to Rs1.689 trillion, showing a 4.65 per cent growth in six months.

At the close of last fiscal year on June 30, 2025, the circular debt had been reported at Rs1.614tr, scaled down by Rs780bn through capital injections and around Rs1.225tr commercial borrowing purportedly at cheaper markup rates. It had gone up by Rs79bn in the first quarter ending September 30, 2025, to Rs1.693tr.

DESPITE capital injections and commercial borrowing, the power sector's circular debt rose Rs75bn to Rs1.699tr in July-December FY26.—Dawn/file

Official data compiled by the power division suggested a relatively improved performance in the second quarter (October-December 2025) as circular debt inched down by Rs4bn to Rs1.689tr, chiefly because of stock payments worth Rs224bn. This is on top of Rs801bn stock payments of circular debt during FY25.

Otherwise, performance indicators showed a mixed trend, with system inefficiencies increasing by Rs101bn over six months and non-payments from K-Electric rising to Rs115bn. As a consequence, the total circular debt stock dropped to Rs1.689tr by December 31, compared with Rs2.384tr in the same period last year, following a capital injection of Rs780bn. The decline was partly reversed, with almost Rs85bn added to Rs695bn.

The data showed that payables to power producers, which stood at Rs861bn at the close of FY25, increased again to Rs903bn in the following six months. Circular debt financing in the first half of the current year amounted to Rs694bn.

The containment of circular debt was also contributed to by a Rs42bn decrease in budgeted but unreleased subsidies, while interest charges dropped to Rs10bn when compared to Rs56bn of the comparable period last year on account of power holding company debts and IPPs' dues.

Prior year adjustments from consumers were reduced by Rs140bn in the first half of FY2024 but increased by Rs95bn in the first half of FY25. The non-payments from K-Electric, which had amounted to Rs12 in the first half of FY24, increased to Rs115bn this year, as the power division reported total receivables from the Karachi-based utility to Rs329bn as of December 31, 2025, including a principal amount of Rs136bn and a Rs193bn markup.

It may be noted that FY26 began with Rs1.614tr, compared with Rs2.467tr in the same period a year earlier. The payables to power producers had increased to Rs944bn at the close of September, which were curtailed to Rs903bn in the following quarter.

The circular debt had increased by Rs224bn at the close of the first five months (July-November 2025), but was brought down in December through a stock payment of Rs224bn. A power division spokesperson said the debt stock at the close of June 2025 should not be compared with its stock at the end of November 2025.

He said the commercial borrowing from banks worth Rs1.225tr was primarily meant for PHPL's expensive debt replacement with a much cheaper loan, and that too with a five- to six-year plan to repay the loan itself through a debt servicing surcharge.

The spokesperson explained that the increase during the July-November period was primarily attributable to seasonal factors that influence monthly circular debt movements and were typically reversed by the end of the fiscal year on half-yearly payments. As such, circular debt flow declined in December 25, "resulting in a net circular debt flow of less than Rs80bn for the period from July-December25".

He said the circular debt declined significantly during FY25 to Rs1.614tr through improvements in Discos' operational efficiencies, strengthening of macroeconomic variables, and the waiver of late payment interest following successful negotiations with power producers.

"It is expected that by the close of the current fiscal year, the Circular Debt position will be fully contained, with no net addition to the overall stock. This expectation is consistent with historical trends, wherein seasonal fluctuations typically normalise in the latter part of the fiscal year", the spokesperson said.

He said the seasonal variations in circular debt flow had no implications for consumer-end electricity tariffs and claimed that Disco's inefficiencies in FY25 were reduced by Rs193bn when compared to FY24.

The power division also said that the Rs1.225 trillion circular debt settlement plan was to be implemented over a six-year period, during which the existing circular debt stock would be refinanced on favourable terms. To date, the first tranche of the settlement has been received.

Gold scales new peak

By Our Staff Reporter

KARACHI: The price of gold surged to an all-time high on Monday, with the 10-gram and one-tola rates (24kt) rising by Rs9,345 and Rs10,900, respectively, to Rs456,157 and Rs532,062.

The increase was triggered by a $109 jump in the world gold rate to $5,097 per ounce, driven by rising geopolitical tensions.

The price of silver also reached a new peak, with the 10-gram and one-tola rates (24kt) rising by Rs537 and Rs627, respectively, to Rs9,797 and Rs11,428, following a $6.27 increase in the global silver rate to $109.53 per ounce.

BYD launches two electric SUVs

KARACHI: Mega Motor Company (MMC), in partnership with the world's leading new energy vehicle (NEV) manufacturer BYD, has recently unveiled two electric sport utility vehicles (SUVs), the BYD Sealion 7 and the BYD Atto 2, at a dealership event in Lahore.

Addressing the launch event, Lei Jian, Country Head of BYD Pakistan, said the introduction of these vehicles underscored the company's commitment to transforming Pakistan's automotive landscape by bringing globally proven technology and innovation to local customers.

"We are excited about the future of mobility in Pakistan, which is forward-looking, electric, and built for the long term," added Danish Khaliq, Vice President — Sales and Strategy at BYD Pakistan — MMC.

In a bid to promote sustainable transportation, BYD-MMC, in collaboration with HubcoGreen, is building Pakistan's first nationwide NEV charging corridor spanning approximately 1,300 kilometres from Karachi to Peshawar, covering major cities and motorways.— Staff Reporter

US DOLLAR	BUYING Rs280.25	SELLING Rs280.96
EURO	BUYING Rs331.97	SELLING Rs335.15
GBP	BUYING Rs382.49	SELLING Rs385.92
UAE DIRHAM	BUYING Rs76.53	SELLING Rs77.29
KSA RIYAL	BUYING Rs74.81	SELLING Rs75.40
GOLD	TOLA Rs532,062	10 GMS Rs456,157

Stocks lose 580 points ahead of SBP decision

By Muhammad Kashif

KARACHI: The Pakistan Stock Exchange (PSX) started the week on a sluggish note, marked by extreme volatility on Monday, as investors took profits following a record-breaking rally in the weekend session.

In early trade, the benchmark KSE-100 index surged past the 191,000 milestone on hopes of a rate cut, but aggressive selling towards the end of the session, ahead of the State Bank of Pakistan's (SBP) decision, pushed the index into the red.

Topline Securities Ltd noted that the local bourse experienced a highly volatile session, with the benchmark index opening on a positive note and rallying to an intraday high of 1,865 points. However, sentiment turned cautious in the second half, with investors opting to lock in recent gains, pulling the index down to an intraday low of 898 points. The market ultimately closed at 188,587, down by 579 points or 0.31 per cent.

PAKISTAN STOCK EXCHANGE

THE TOP FIVERS

GAINERS		LOSERS		LEADERS*	
Nestle Pakistan	206.12	PIA Holding CoB	306.67	K-Electric	172.82
Sazgar Engg	195.36	Unilever Foods	299.77	Worldcall Telecom	37.14
Bata Pakistan	39.30	Khyber Textile	65.15	PIBT	28.99
Khyber Tobacco	36.84	Supernet Techno	54.57	Bank Makramah	27.07
Blessed Textiles	34.63	Pioneer Cement	32.33	The Bank of Punjab	27.01

(Share values in rupees) * Volume in millions of traded shares

ACTIVITY

Total listed	532
Active	487
Gainers	141
Losers	298

PARTICIPANTS

Foreign	▲$5.90m
Companies	▲$1.03m
Banks	▼$0.37m
Mutual Funds	▼$5.85m
Individuals	▼$0.47m

INDICATORS

	Monday	Previous		Change
KSE 100-SHARE INDEX (Points)	188,587.66	189,166.83	▼	579.17
KSE 30-SHARE INDEX (Points)	58,026.90	58,207.71	▼	180.81
MARKET CAPITAL (Rs billion)	21,161.669	21,219.246	▼	57.576
TRADING VALUE (Rs billion)	57.196	58.594	▼	1.397

The choppy trading pattern was primarily driven by investor caution ahead of the Monetary Policy Committee meeting scheduled later in the evening, which kept market participants on the sidelines.

On the result front, Mari Energies announced its 1HFY26 results, reporting an earnings per share of Rs23.89, below expectations due to higher-than-anticipated operating and exploration costs. The company also declared an interim dividend of Rs8.3 per share for 2QFY26.

Arif Habib Ltd (AHL) said PSX ended the PSX remained range-bound with the oscillated in both directions as investors trimmed positions at higher levels ahead of the SBP Monetary Policy announcement.

The central bank its policy rate unchanged at 10.50pc, contrary to market expectations of a cut toward 10pc. However, to support liquidity, SBP reduced the average Cash Reserve Requirement (CRR) from 6pc to 5pc to stimulate private-sector credit growth.

SBP also revised its FY26 fundamental GDP growth outlook to 3.75-4.75pc, while inflation is expected to stabilise within the 5-7pc target range in FY26-FY27 after temporary pressures.

Moreover, steady remittances and favourable commodity prices are likely to keep the current account deficit contained at 0-1pc of GDP. At the same time, foreign exchange reserves are projected to exceed $18bn by June, improving further in FY27.

On the index front, Meezan Bank, Engro Holdings, Pioneer Cement, Fatima Fertiliser, and Lucky Cement were key laggards, collectively shedding 556 points, while Sazgar Engineering Works, Systems Ltd, Millat Tractor, Javedan Cement, and Fauji Fertiliser added 401 points and rescued falling market momentum.

Overall, market participation remained moderate, with trading volume falling to 867.07m shares and the traded value of Rs57.1bn.

Analysts expect the market may face near-term selling pressure following SBP's status quo decision, which came as a negative surprise. However, the 185,000 level is likely to serve as the first key support level.